

Message Text

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ACTION EB-07

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FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC 7892

C O N F I D E N T I A L BANGKOK 2574

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E.O. 11652: GDS

TAGS: EMIN, TH

SUBJECT: PETROLEUM PRICE FREEZE

REF: BANGKOK 1777

1. SUMMARY. LOCAL ESSO AND CALTEX REPS CALLED ON AMBASSADOR TO EXPRESS CONCERN ABOUT GOVERNMENT'S OIL PRICING POLICY, NOTING RTG HAD FAILED AGAIN TO HONOR ITS AGREEMENT TO PROVIDE RELIEF TO OIL COMPANIES THROUGH REDUCTION OF EXCISE TAX. EXPLAINED COMPANIES NOW FACING LARGE LOSSES, WHICH MAY FORCE THEM TO TAKE ACTION WHICH COULD BECOME MAJOR PUBLIC ISSUE, WITH AMERICAN OIL COMPANIES BEING PEGGED AS CULPRITS. END SUMMARY.

2. LOCAL MANAGING DIRECTORS OF ESSO (COHEN) AND CALTEX (SAUNDERS) CALLED ON AMBASSADOR FEB. 5 AND INFORMED HIM THAT RTG HAD FAILED TO HONOR ITS JAN. 24 "GENTLEMEN'S AGREEMENT" TO PROVIDE RELIEF TO OIL COMPANIES THROUGH REDUCTION OF EXCISE TAX (REFTEL). EFFECTIVE DATE WAS TO HAVE BEEN FEB. 1, WHEN FINANCE MINISTER BUNCHU AND SEVERAL OTHER INVOLVED RTG OFFICIALS WERE OUT OF THE COUNTRY; NO ACTION WAS TAKEN AND NO ONE HAD BOTHERED EVEN TO TELEPHONE THEM. COHEN HAD CALLED ON DEPUTY PRIME MINISTER PRAMARN PREVIOUS DAY. PRAMARN SAID MATTER WAS IN BUNCHU'S HANDS. SAUNDERS THEN TRIED TO REACH BUNCHU, CONFIDENTIAL

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WHO HAD JUST RETURNED TO THAILAND, AND WAS TOLD BUNCHU

DIDN'T WANT TO SEE HIM.

3. COHEN SAID ESSO IS NOW LOSING ONE MILLION DOLLARS PER MONTH, AND CANNOT GO ON INDEFINITELY THAT WAY. COMPANY HAS BEEN CAUGHT IN PRICE SQUEEZE BEFORE, BUT NEVER AS BAD AS THIS. UNDER THE CIRCUMSTANCES, THE TWO REPS FELT THAT THE ONLY WAY TO PREVENT FURTHER LOSSES WOULD BE TO TAKE AWAY SOME OR ALL OF THE MARGINS FROM THEIR DEALERS WHICH, WITH FROZEN MARKET PRICES, WOULD MEAN REDUCING OR ELIMINATING LATTER'S PROFIT; RESULT WOULD BE THAT SOME DEALERS EITHER WOULD NOT OR COULD NOT CONTINUE TO BUY AND WOULD CLOSE THEIR GAS STATIONS. OTHERS MIGHT RESORT TO BLACK MARKETING, SELLING ABOVE THE GOVERNMENT-IMPOSED CEILING. SAUNDERS THOUGHT THAT IN ANY EVENT, THIS WOULD LEAD TO CHAOTIC SITUATION WHICH THE PRESS, STUDENTS AND LABOR WOULD SEIZE UPON, WITH THE AMERICAN OIL COMPANIES PEGGED AS THE CULPRITS, SINCE EVEN SHELL IS COMMONLY IDENTIFIED BY PUBLIC AS AMERICAN COMPANY. REPS SPECULATED RTG WOULD PREFER HAVE COMPANIES TAKE HEAT FOR ANY PRICE INCREASES.

4. COMPANY REPS SAID THEY COULD SEE THREE POSSIBLE ACTIONS GOVERNMENT COULD TAKE: (A) BACK OFF; (B) FREEZE WHOLESALE PRICES, IN EFFECT NATIONALIZATION; OR (C) NATIONALIZE COMPANIES. AMBASSADOR SAID HE COULDN'T FORESEE RTG TAKING SUCH DRASTIC ACTION AS NATIONALIZATION, ESPECIALLY IN AFTERMATH OF TEMCO AFFAIR, AND EFFECT THIS WOULD HAVE ON INVESTMENT CLIMATE. REPS AGREED, SUGGESTING PERHAPS A COMBINATION OF (A) AND (B). THEY WERE CONCERNED THAT STALLING INDICATED NO ACTION WOULD BE TAKEN UNTIL APRIL 4 ELECTIONS OR UNTIL NEW GOVERNMENT IS FORMED WHICH WILLING TO PROVIDE RELIEF, WHICH COULD MEAN INTO MAY OR LATER. THEY NOTED ANOTHER OPEC PRICE INCREASE IS EXPECTED IN JUNE.

5. COHEN SAID AMOUNT AT STAKE, AT ONE DOLLAR PER BARREL, IS \$50 MILLION WHICH EITHER GOVERNMENT, OIL COMPANIES AND/OR DEALERS, OR CONSUMERS WILL HAVE TO ABSORB. HE SAID SUMMIT HAS ALREADY BEGUN TAKING DISCOUNTS AWAY FROM DEALERS, BUT AMOUNT INVOLVED IS INSIGNIFICANT. SAUNDERS CONFIDENTIAL

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SAID CALTEX IS THINKING OF MAKING SAME MOVE SOON.

6. DURING CONVERSATION, COHEN AND SAUNDERS VOLUNTEERED THAT, IN THEIR OPINION, SINCE GOVERNMENT HAD CALLED IN ALL COMPANIES IN A BODY (ESSO, CALTEX, SHELL, SUMMIT, TORC AND MOBIL) AND BASED ON AN ARAMCO PRECEDENT, THE COMPANIES' CONSULTING WITH ONE ANOTHER WAS NOT A VIOLATION OF U.S. ANTI-TRUST LEGISLATION, NOTING THAT SHOULD THEY

DECIDE TO CUT OR REDUCE DEALER MARGINS, THEY WOULD DO SO INDEPENDENTLY, WITH NO CONSULTATIONS ON AMOUNTS.

7. AMBASSADOR SUGGESTED THAT, SINCE BUNCHU SEEMS TO BE IN CHARGE, AND SINCE HE HAD INDEED BEEN OUT OF THE COUNTRY ON FEBRUARY 1, THEY SHOULD PROBABLY MAKE ANOTHER ATTEMPT TO DISCUSS MATTER WITH HIM BEFORE TAKING UNILATERAL ACTION. BOTH AGREED THIS MADE SENSE. EMBASSY SUBSEQUENTLY INFORMED BY ESSO, HOWEVER, THAT MEETING OF OIL POLICY COMMITTEE HAS NOW BEEN SCHEDULED FOR P.M. FEB. 6, AT WHICH TIME SOME SORT OF GOVERNMENT DECISION IS SUPPOSED TO BE MADE. COMPANIES FELT IT BEST TO AWAIT OUTCOME OF THAT MEETING BEFORE SEEKING FURTHER APPOINTMENTS.
WHITEHOUSE

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